

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE
DEPARTMENT OF MANAGEMENT AND BUDGET

October 1, 1998 through September 30, 2000

EXECUTIVE DIGEST

DEPARTMENT OF MANAGEMENT AND BUDGET

INTRODUCTION	This report contains the results of our financial audit*, including the provisions of the Single Audit* Act, of the Department of Management and Budget (DMB) for the period October 1, 1998 through September 30, 2000.
AUDIT PURPOSE	This financial audit of DMB was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i> .
BACKGROUND	<p>DMB has two separate and distinct components overseen by the DMB director and the State budget director, who are appointed by the Governor.</p> <p>DMB is responsible for providing centralized Statewide services to other departments. The DMB director has responsibility in the areas of procurement, management services, and information technology services. The State budget director has responsibility in the areas of budget and financial management services. The following agencies provide these Statewide services: Offices of the State Budget, Financial Management, Design and Construction, Retirement Services, Support Services, Purchasing, Project Management, Michigan Information</p>

* See glossary at end of report for definition.

Network, and Information Technology Solutions; Computing Services; Telecommunications Services; Property Services; Vehicle and Travel Services; Michigan Administrative Information Network; and Michigan Information Center. DMB recoups a portion of these services through charges to user departments.

DMB also administers the Advance Financing Funds (AFF). AFF reflects the activities of two subfunds: the State Building Authority Advance Financing Fund (SBAAFF) and the Site Preparation Economic Development Fund (SPEDF). SBAAFF was created to account for expenditures incurred for equipment, higher education, and State projects prior to the issuance of State Building Authority bonds. SPEDF was created by Act 265, P.A. 1999, to account for expenditures incurred to prepare and sell State-owned sites declared as surplus that would provide economic benefit to the area or the State.

For fiscal years 1999-2000 and 1998-99, the Office of Administrative Services managed all federal programs within DMB.

As of September 30, 2000, DMB had 1,546 full-time equated positions. For the fiscal year ended September 30, 2000, DMB's General Fund net expenditures and operating transfers out were \$2.4 billion, of which \$1.8 billion were grants to colleges and universities. For the fiscal year ended September 30, 2000, AFF expenditures were \$80.2 million.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To audit DMB's financial schedules and its AFF financial statements and to examine the supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to DMB's financial schedules and financial statements as of and for

the fiscal years ended September 30, 2000 and September 30, 1999.

Conclusion: We expressed an unqualified opinion* on DMB's financial schedules and the AFF financial statements. In addition, we expressed an unqualified opinion on DMB's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules and financial statements taken as a whole.

Audit Objective: To assess and report on DMB's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules and/or financial statements, and on its internal control* over financial reporting, based on our audit of the financial schedules and financial statements.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules and/or financial statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses*.

In addition, our assessment indicated that DMB was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Audit Objective: To assess and report on DMB's compliance with requirements applicable to each major

* See glossary at end of report for definition.

federal program and on its internal control over compliance in accordance with OMB Circular A-133.

Conclusion: We issued an unqualified opinion on DMB's compliance with requirements applicable to each major federal program. Also, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the General Fund operations and the financial and other records of the Advance Financing Funds of the Department of Management and Budget for the period October 1, 1998 through September 30, 2000. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

The scope of this audit did not include the separate funds administered by DMB that did not administer any federal programs. Those funds, which are audited separately and included in other audit reports, include: the State Building Authority, Motor Transport Fund, Office Services Revolving Fund, Information Technology and Energy Fund, Risk Management Fund, State Sponsored Group Insurance Fund, and the retirement funds administered by the Office of Retirement Services.

PRIOR AUDIT
FOLLOW-UP

As disclosed in DMB's summary schedule of prior audit findings, DMB fully corrected 2 and partially corrected 1 of

the 4 prior Single Audit findings. One prior audit finding is no longer applicable to DMB because the federal programs identified in the finding were transferred to the Department of Community Health by Executive Order No. 1997-5.

This page left intentionally blank.

June 25, 2001

Mr. Duane Berger, Acting Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Berger:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Management and Budget for the period October 1, 1998 through September 30, 2000.

This report contains our executive digest; description of agency; audit objectives and conclusions, audit scope, and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial schedules, on the financial statements, on compliance and on internal control over financial reporting, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133. This report also contains the Department of Management and Budget financial schedules, the Advance Financing Funds financial statements, and notes to the financial schedules and financial statements; supplemental financial schedules; other schedules; and a glossary of acronyms and terms.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

This page left intentionally blank.

TABLE OF CONTENTS

DEPARTMENT OF MANAGEMENT AND BUDGET

INTRODUCTION

	<u>Page</u>
Executive Digest	1
Report Letter	7
Description of Agency	11
Audit Objectives and Conclusions, Audit Scope, and Prior Audit Follow-Up	13

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results	16
Section II: Findings Related to the Financial Schedules and Financial Statements	17
Section III: Findings and Questioned Costs Related to Federal Awards	17

INDEPENDENT AUDITOR'S REPORTS, FINANCIAL SCHEDULES, AND FINANCIAL STATEMENTS

Independent Auditor's Report on the Financial Schedules	18
Independent Auditor's Report on the Financial Statements	20
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	22
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	24
Department of Management and Budget Financial Schedules	
Schedule of General Fund Revenues and Operating Transfers	26
Schedule of Sources and Disposition of General Fund Authorizations	27

Advance Financing Funds Financial Statements	
Balance Sheet	28
Statement of Revenues, Expenditures, and Changes in Fund Balance	29
Notes to the Financial Schedules and Financial Statements	30

SUPPLEMENTAL FINANCIAL SCHEDULES

Schedule of General Fund Revenues and Operating Transfers by Agency - Fiscal Year Ended September 30, 2000	36
Schedule of General Fund Revenues and Operating Transfers by Agency - Fiscal Year Ended September 30, 1999	37
Schedule of Sources and Disposition of General Fund Authorizations by Agency - Fiscal Year Ended September 30, 2000	38
Schedule of Sources and Disposition of General Fund Authorizations by Agency - Fiscal Year Ended September 30, 1999	39
Schedule of Expenditures of Federal Awards	40

OTHER SCHEDULES

Summary Schedule of Prior Audit Findings	43
Corrective Action Plan	45

GLOSSARY

Glossary of Acronyms and Terms	46
--------------------------------	----

Description of Agency

The Department of Management and Budget (DMB) was created by the Executive Organization Act of 1965 (Act 380, P.A. 1965). DMB has two separate and distinct components overseen by the DMB director and the State budget director, who are appointed by the Governor. Numerous organizational units within DMB perform a broad range of duties.

The Director's Office is responsible for providing program and policy direction for DMB, with the Office of Administrative Services providing fiscal management and personnel services to DMB. The State budget director prepares, presents, and executes the State budget in addition to having responsibility over the Office of Financial Management.

DMB is responsible for providing centralized Statewide services to other departments. The DMB director has responsibility in the areas of procurement, management services, and information technology services. The management services areas include the Offices of Design and Construction, Retirement Services, and Support Services; Property Services; Vehicle and Travel Services; and the State Building Authority. The information technology services areas include the Offices of Project Management, Michigan Information Network, and Information Technology Solutions; Computing Services; and Telecommunication Services. DMB recoups a portion of the costs of these services through charges to user departments.

The State budget director has responsibility in the areas of budget and financial management services. The budget and financial management services areas include the Office of the State Budget (the Offices of Development and General Government, Education and Infrastructure, Health and Human Services and Economic Development, and Public Protection and Resources); the Office of Financial Management; the Michigan Administrative Information Network (MAIN); and the Michigan Information Center. Other DMB organizational units include the Office of the State Employer, the Office of Children's Ombudsman, and the State Administrative Board.

DMB also administers the Advance Financing Funds (AFF). AFF reflects the activities of two subfunds: the State Building Authority Advance Financing Fund (SBAAFF) and the Site Preparation Economic Development Fund (SPEDF). SBAAFF was created to account for expenditures incurred for equipment, higher education, and State projects

prior to the issuance of State Building Authority bonds. SPEDF was created by Act 265, P.A. 1999, to account for expenditures incurred to prepare and sell State-owned sites declared as surplus that would provide economic benefit to the area or the State.

The Federal Surplus Property Unit receives and distributes nonfinancial federal assistance in the form of federal surplus property to eligible State and local governmental agencies. The Unit assesses a service fee to participants to cover its operational expenses.

For fiscal years 1999-2000 and 1998-99, the Office of Administrative Services managed all federal programs within DMB.

As of September 30, 2000, DMB had 1,546 full-time equated positions. For the fiscal year ended September 30, 2000, DMB's General Fund net expenditures and operating transfers out were \$2.4 billion, of which \$1.8 billion were grants to colleges and universities. For the fiscal year ended September 30, 2000, AFF expenditures were \$80.2 million.

Audit Objectives and Conclusions, Audit Scope,
and Prior Audit Follow-Up

Audit Objectives and Conclusions

Our financial audit, including the provisions of the Single Audit Act, of the Department of Management and Budget (DMB) had the following objectives:

1. To audit DMB's financial schedules and its Advance Financing Fund (AFF) financial statements and to examine the supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to DMB's financial schedules and financial statements as of and for the fiscal years ended September 30, 2000 and September 30, 1999.

We expressed an unqualified opinion on DMB's financial schedules and the AFF financial statements. In addition, we expressed an unqualified opinion on DMB's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules and financial statements taken as a whole.

2. To assess and report on DMB's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules and/or financial statements, and on its internal control over financial reporting, based on our audit of the financial schedules and financial statements.

Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules and/or financial statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses.

In addition, our assessment indicated that DMB was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

3. To assess and report on DMB's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

We issued an unqualified opinion on DMB's compliance with requirements applicable to each major federal program. Also, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.

Audit Scope

Our audit scope was to examine the financial and other records of the General Fund operations and the financial and other records of the Advance Financing Funds of the Department of Management and Budget for the period October 1, 1998 through September 30, 2000. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

The scope of this audit did not include the separate funds administered by DMB that did not administer any federal programs. Those funds, which are audited separately and included in other audit reports, include: the State Building Authority, Motor Transport Fund, Office Services Revolving Fund, Information Technology and Energy Fund, Risk Management Fund, State Sponsored Group Insurance Fund, and the retirement funds administered by the Office of Retirement Services.

We considered DMB's internal control over compliance applicable to each major federal program and assessed DMB's compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on DMB's summary schedule of prior audit findings. DMB's major federal programs are identified in Section I of the schedule of findings and questioned costs*.

* See glossary at end of report for definition.

Prior Audit Follow-Up

As disclosed in DMB's summary schedule of prior audit findings, DMB fully corrected 2 and partially corrected 1 of the 4 prior Single Audit findings. One prior audit finding is no longer applicable to DMB because the federal programs identified in the finding were transferred to the Department of Community Health by Executive Order No. 1997-5.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules and Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions* identified that are not considered to be material weaknesses?	None reported
Noncompliance material to the financial schedules or financial statements?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	No

* See glossary at end of report for definition

Identification of major programs:

<i>CFDA</i> Number	Name of Federal Program
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants
39.003	Donation of Federal Surplus Personal Property

Dollar threshold used to distinguish between type A and type B programs: \$883,981

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules and Financial Statements

We did not report any findings related to the financial schedules and financial statements.

The status of the findings related to the financial schedules and the financial statements that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs Related to Federal Awards

We did not report any findings related to federal awards.

The status of the findings related to federal awards that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

* See glossary at end of report for definition.

Independent Auditor's Report on
the Financial Schedules

March 27, 2001

Mr. Duane Berger, Acting Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Berger:

We have audited the accompanying schedule of General Fund revenues and operating transfers and the schedule of sources and disposition of General Fund authorizations of the Department of Management and Budget for the fiscal years ended September 30, 2000 and September 30, 1999. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The governmental operations of the Department are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenues and operating transfers and the sources and disposition of authorizations for the Department of Management and Budget's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and operating transfers and the sources and disposition of authorizations of the Department of Management and Budget for the fiscal years ended September 30, 2000 and September 30, 1999, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 27, 2001 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and other supplemental financial schedules, consisting of the schedules of General Fund revenues and operating transfers by agency and the schedules of sources and disposition of General Fund authorizations by agency, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on
the Financial Statements

March 27, 2001

Mr. Duane Berger, Acting Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Berger:

We have audited the accompanying balance sheet of the Advance Financing Funds, Department of Management and Budget, as of September 30, 2000 and September 30, 1999 and the related statement of revenues, expenditures, and changes in fund balance for the fiscal years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial statements present only the Advance Financing Funds and are not intended to present fairly the financial position and results of operations of the State of Michigan or its capital projects funds.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Advanced Financing Funds as of September 30, 2000 and September 30, 1999 and the results of operations for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 27, 2001 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is not a required part of the Department's financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on Compliance and
on Internal Control Over Financial Reporting

March 27, 2001

Mr. Duane Berger, Acting Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Berger:

We have audited the General Fund financial schedules and the Advance Financing Funds financial statements of the Department of Management and Budget as of and for the fiscal years ended September 30, 2000 and September 30, 1999 and have issued our reports thereon dated March 27, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial schedules and financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule and statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the

internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

March 27, 2001

Mr. Duane Berger, Acting Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Berger:

Compliance

We have audited the compliance of the Department of Management and Budget with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 2000 and September 30, 1999. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department of Management and Budget complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 2000 and September 30, 1999.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of General Fund Revenues and Operating Transfers
Fiscal Years Ended September 30
(In Thousands)

	<u>2000</u>	<u>1999</u>
REVENUES		
Federal	\$ 2,462	\$ 7,139
Local units	170	182
Taxes		413
Services	3,267	7,120
Licenses and permits	154	144
Miscellaneous	<u>30,601</u>	<u>29,863</u>
Total Revenues	<u>\$ 36,654</u>	<u>\$ 44,862</u>
OPERATING TRANSFERS		
Operating transfers from other funds	<u>\$ 5,829</u>	<u>\$ 5,356</u>
Total Operating Transfers	<u>\$ 5,829</u>	<u>\$ 5,356</u>
Total Revenues and Operating Transfers	<u><u>\$ 42,484</u></u>	<u><u>\$ 50,218</u></u>

The accompanying notes are an integral part of the financial schedules.

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30
(In Thousands)

	<u>2000</u>	<u>1999</u>
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 2,421,230	\$ 2,678,729
Budgetary transfers in (out)	197	
Budgetary adjustments		451
Balances carried forward	477,298	207,635
Restricted financing sources	98,828	98,826
Less: Intrafund expenditure reimbursements	(59,905)	(56,447)
Total	<u>\$ 2,937,648</u>	<u>\$ 2,929,194</u>
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and operating transfers out	\$ 2,496,749	\$ 2,489,029
Less: Intrafund expenditure reimbursements	(59,905)	(56,447)
Net expenditures and operating transfers out	\$ 2,436,844	\$ 2,432,582
Balances carried forward:		
Multi-year projects	359,360	416,940
Encumbrances	70,444	19,938
Restricted revenue - not authorized	33,461	39,970
Balances lapsed	37,539	19,763
Total	<u>\$ 2,937,648</u>	<u>\$ 2,929,194</u>

The accompanying notes are an integral part of the financial schedules.

ADVANCE FINANCING FUNDS
Department of Management and Budget
Balance Sheet
As of September 30
(In Thousands)

	<u>2000</u>	<u>1999</u>
ASSETS		
Current Assets		
Amounts due from other funds	\$ 129,502	\$ 36,965
Amounts due from component units	18,551	4,977
Amounts due from federal agencies	5,458	8,802
Amounts due from local units	2,711	1,626
Other current assets	16,875	80
Total Current Assets	<u>\$ 173,099</u>	<u>\$ 52,450</u>
 Total Assets	 <u>\$ 173,099</u>	 <u>\$ 52,450</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Warrants outstanding	\$ 820	\$ 312
Accounts payable and other liabilities	185,150	86,581
Amounts due to other funds	22,195	36,198
Amounts due to component units		129
Deferred revenue	24,017	
Total Liabilities	<u>\$ 232,181</u>	<u>\$ 123,219</u>
 Fund Balance		
Unreserved	\$ (59,082)	\$ (70,769)
Total Fund Balance	<u>\$ (59,082)</u>	<u>\$ (70,769)</u>
 Total Liabilities and Fund Balance	 <u>\$ 173,099</u>	 <u>\$ 52,450</u>

The accompanying notes are an integral part of the financial statements.

ADVANCE FINANCING FUNDS
Department of Management and Budget
Statement of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Year Ended September 30
(In Thousands)

	<u>2000</u>	<u>1999</u>
REVENUES		
Federal agencies	\$ 9,835	\$ 8,774
Miscellaneous	<u>5,045</u>	<u>6,534</u>
Total Revenues	<u>\$ 14,880</u>	<u>\$ 15,309</u>
EXPENDITURES		
Current:		
General Government	\$ 145	\$
Education	15,146	3,081
Capital Outlay	<u>64,910</u>	<u>73,235</u>
Total Expenditures	<u>\$ 80,202</u>	<u>\$ 76,317</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (65,322)</u>	<u>\$ (61,008)</u>
OTHER FINANCING SOURCES (USES)		
Operating transfers from other funds	\$ 77,209	\$ 36,013
Operating transfers to other funds	(7)	(388)
Operating transfers from component units	<u>(194)</u>	<u>(2,285)</u>
Total Other Financing Sources (Uses)	<u>\$ 77,008</u>	<u>\$ 33,340</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 11,687	\$ (27,668)
Fund Balance - Beginning of fiscal year	<u>(70,769)</u>	<u>(43,101)</u>
Fund Balance - End of fiscal year	<u><u>\$ (59,082)</u></u>	<u><u>\$ (70,769)</u></u>

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Schedules and Financial Statements

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the governmental operations of the Department of Management and Budget (DMB) for the fiscal years ended September 30, 2000 and September 30, 1999. The government operations of DMB are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. The financial schedules do not include the financial activities of the Advance Financing Funds, which are reflected in the accompanying financial statements. Also, the financial schedules do not include several other financial activities that are accounted for in various special revenue, capital projects, internal service, and trust funds of the State that are periodically audited separately and do not contain any federal financial assistance administered by DMB. Those funds include the State Building Authority (SBA), Motor Transport Fund, Office Services Revolving Fund, Information Technology and Energy Fund, Risk Management Fund, State Sponsored Group Insurance Fund, and the retirement funds administered by the Office of Retirement Services.

The accompanying financial statements report the financial position and results of operations of the Advance Financing Funds (AFF), Department of Management and Budget, for the fiscal years ended September 30, 2000 and September 30, 1999. AFF is a part of the State of Michigan's reporting entity and is reported as a capital projects fund in the *SOMCAFR*.

The notes accompanying these financial schedules and financial statements relate directly to DMB and AFF. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Treasurer's Common Cash, Pension Benefits and Other Postemployment Benefits, Compensated Absences, Leases, and Contingencies and Commitments.

b. Basis of Accounting and Presentation

The financial schedules and financial statements contained in this report are prepared on the modified accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenues and operating transfers and the sources and disposition of authorizations for DMB's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either DMB or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

The financial statements present only AFF. Accordingly, these financial statements are not intended to present fairly the position and results of operations of the State of Michigan or its capital projects funds. AFF reflects the activities of two subfunds: the State Building Authority Advance Financing Fund (SBAAFF) and the Site Preparation Economic Development Fund (SPEDF).

SBAAFF was established to account for expenditures incurred for buildings for State projects and higher education and for equipment prior to the issuance of SBA bonds. In addition to advance expenditures, expenditures financed by the General Fund or other sources related to SBA projects are recorded in SBAAFF. At fiscal year-end, any deficit in SBAAFF's portion of the common cash pool is reclassified as an interfund liability to the General Fund.

SBA is not legally obligated for these projects until it sells bonds or commercial paper to finance the projects. Therefore, SBA records no liability for the project costs and SBAAFF records no receivable for the unreimbursed project costs. This results in SBAAFF showing a year-end fund balance deficit. SBA will reimburse SBAAFF by recording an operating transfer and the deficit attributable to the bonded projects will be eliminated when SBA issues its bonds or obtains commercial paper.

SPEDF was created to account for expenditures incurred to prepare and sell State-owned sites declared as surplus that would provide economic benefit to the area or the State. Expenditures are recorded when incurred. Proceeds of the sale of fund properties will be deposited into SPEDF.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Budgetary transfers in (out): Legislatively approved transfers of spending authorization between accounts within a department or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by the DMB Office of Financial Management.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized.
- d. Restricted financing sources: Collections of restricted revenue, restricted operating transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.
- e. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the

responsibility of the receiving department. An example of a significant program is reimbursement for the rental of State buildings.

- f. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects.
- g. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- h. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular program or activity. However, the expenditure of the restricted revenue is subject to annual legislative appropriation. Examples of significant carry-forwards of this type are amounts for employee severance pay and amounts collected to operate the State's accounting system.
- i. Balances lapsed: Authorizations that were unexpended or unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

Operating grants to State colleges and universities are included as part of DMB in the schedule of sources and disposition of General Fund authorizations. Appropriations and net expenditures and operating transfers out totaled \$1.86 billion and \$1.76 billion for fiscal years 1999-2000 and 1998-99, respectively.

Note 3 Expenditure Credits

Expenditures recorded in AFF for the construction of buildings are substantially offset by expenditure credits. These expenditure credits were reimbursements of construction costs by colleges, universities, and SBA that were recorded in the same fiscal year as the related expenditures. Reimbursements not recorded in the same fiscal year as the related expenditures are recorded as operating transfers (revenue). Recording expenditure credits is necessary to avoid overstating expenditures within the *SOMCAFR* because many of the reimbursing entities are included in the State's reporting entity. The following

table summarizes the amounts for the fiscal years ended September 30 (in thousands):

	2000	1999
Total expenditures	\$535,609	\$300,374
Expenditure credits	<u>(455,407)</u>	<u>(224,057)</u>
Net Expenditures	<u>\$ 80,202</u>	<u>\$ 76,317</u>

SUPPLEMENTAL FINANCIAL SCHEDULES

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of General Fund Revenues and Operating Transfers by Agency
Fiscal Year Ended September 30, 2000
(In Thousands)

	<u>Administrative</u>	<u>Capital Outlay</u>	<u>Office of Financial Management</u>	<u>Colleges and Universities</u>	<u>Colleges' and Universities' Capital Outlay</u>	<u>Total</u>
REVENUES						
Federal	\$ 856	\$ 1,607	\$	\$	\$	\$ 2,462
Local units		170				170
Taxes						0
Services	3,267					3,267
Licenses and permits	154					154
Miscellaneous	<u>20,810</u>	<u>9,755</u>		<u>36</u>		<u>30,601</u>
Total Revenues	<u>\$ 25,087</u>	<u>\$ 11,532</u>	<u>\$ 0</u>	<u>\$ 36</u>	<u>\$ 0</u>	<u>\$ 36,654</u>
OPERATING TRANSFERS						
Operating transfers from other funds	<u>\$ 5,459</u>	<u>\$ 370</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 5,829</u>
Total Operating Transfers	<u>\$ 5,459</u>	<u>\$ 370</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,829</u>
Total Revenues and Operating Transfers	<u>\$ 30,546</u>	<u>\$ 11,902</u>	<u>\$ 0</u>	<u>\$ 36</u>	<u>\$ 0</u>	<u>\$ 42,484</u>

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of General Fund Revenues and Operating Transfers by Agency
Fiscal Year Ended September 30, 1999
(In Thousands)

	<u>Administrative</u>	<u>Capital Outlay</u>	<u>Office of Financial Management</u>	<u>Colleges and Universities</u>	<u>Colleges' and Universities' Capital Outlay</u>	<u>Total</u>
REVENUES						
Federal	\$ 3,629	\$ 3,511	\$	\$	\$	\$ 7,139
Local units		182				182
Taxes	413					413
Services	7,120					7,120
Licenses and permits	144					144
Miscellaneous	20,068	8,227	1,085	438	45	29,863
Total Revenues	<u>\$ 31,373</u>	<u>\$ 11,920</u>	<u>\$ 1,085</u>	<u>\$ 438</u>	<u>\$ 45</u>	<u>\$44,862</u>
OPERATING TRANSFERS						
Operating transfers from other funds	\$ 4,362	\$ 994	\$	\$	\$	\$ 5,356
Total Operating Transfers	<u>\$ 4,362</u>	<u>\$ 994</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,356</u>
Total Revenues and Operating Transfers	<u>\$ 35,736</u>	<u>\$ 12,914</u>	<u>\$ 1,085</u>	<u>\$ 438</u>	<u>\$ 45</u>	<u>\$50,218</u>

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of Sources and Disposition of General Fund Authorizations by Agency
Fiscal Year Ended September 30, 2000
(In Thousands)

	<u>Administrative</u>	<u>Capital Outlay</u>	<u>Office of Financial Management</u>	<u>Colleges and Universities</u>	<u>Colleges' and Universities' Capital Outlay</u>	<u>Total</u>
SOURCES OF AUTHORIZATIONS						
General purpose appropriations	\$ 80,448	\$ 327,923	\$ 100,000	\$ 1,856,447	\$ 56,412	\$ 2,421,230
Budgetary transfers in (out)	197					197
Budgetary adjustments						0
Balances carried forward	53,040	423,203			1,054	477,298
Restricted financing sources	87,729	11,099				98,828
Less: Intrafund expenditure reimbursements	(59,905)					(59,905)
Total	<u>\$ 161,509</u>	<u>\$ 762,225</u>	<u>\$ 100,000</u>	<u>\$ 1,856,447</u>	<u>\$ 57,466</u>	<u>\$ 2,937,648</u>
DISPOSITION OF AUTHORIZATIONS						
Gross expenditures and operating transfers out	\$ 157,793	\$ 325,919	\$ 100,000	\$ 1,856,378	\$ 56,660	\$ 2,496,749
Less: Intrafund expenditure reimbursements	(59,905)					(59,905)
Net expenditures and operating transfers out	<u>\$ 97,888</u>	<u>\$ 325,919</u>	<u>\$ 100,000</u>	<u>\$ 1,856,378</u>	<u>\$ 56,660</u>	<u>\$ 2,436,844</u>
Balances carried forward						
Multi-year projects	40,565	318,440			355	359,360
Encumbrances	1,087	69,353			4	70,444
Restricted revenue - not authorized	20,600	12,862				33,461
Balances lapsed	1,370	35,652		70	447	37,539
Total	<u>\$ 161,509</u>	<u>\$ 762,225</u>	<u>\$ 100,000</u>	<u>\$ 1,856,447</u>	<u>\$ 57,466</u>	<u>\$ 2,937,648</u>

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of Sources and Disposition of General Fund Authorizations by Agency
Fiscal Year Ended September 30, 1999
(In Thousands)

	Administrative	Capital Outlay	Office of Financial Management	Colleges and Universities	Colleges' and Universities' Capital Outlay	Total
SOURCES OF AUTHORIZATIONS						
General purpose appropriations	\$ 58,138	\$ 575,867	\$ 244,436	\$ 1,761,787	\$ 38,501	\$ 2,678,729
Budgetary transfers in (out)						0
Budgetary adjustments		406			45	451
Balances carried forward	61,458	141,641		500	4,036	207,635
Restricted financing sources	87,521	11,305				98,826
Less: Intrafund expenditure reimbursements	(56,447)					(56,447)
Total	<u>\$ 150,670</u>	<u>\$ 729,220</u>	<u>\$ 244,436</u>	<u>\$ 1,762,287</u>	<u>\$ 42,581</u>	<u>\$ 2,929,194</u>
DISPOSITION OF AUTHORIZATIONS						
Gross expenditures and operating transfers out	\$ 153,413	\$ 287,681	\$ 244,436	\$ 1,761,972	\$ 41,527	\$ 2,489,029
Less: Intrafund expenditure reimbursements	(56,447)					(56,447)
Net expenditures and operating transfers out	\$ 96,965	\$ 287,681	\$ 244,436	\$ 1,761,972	\$ 41,527	\$ 2,432,582
Balances carried forward:						
Multi-year projects	26,937	389,132			870	416,940
Encumbrances	2,098	17,657			184	19,938
Restricted revenue - not authorized	24,005	15,965				39,970
Balances lapsed	664	18,784		315		19,763
Total	<u>\$ 150,670</u>	<u>\$ 729,220</u>	<u>\$ 244,436</u>	<u>\$ 1,762,287</u>	<u>\$ 42,581</u>	<u>\$ 2,929,194</u>

DEPARTMENT OF MANAGEMENT AND BUDGET
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 1998 through September 30, 2000

For the Fiscal Year Ended September 30, 1999					
Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>Financial Assistance</u>					
U.S. Department of the Interior					
Direct Program:					
National Spatial Data Infrastructure Competitive Cooperative Agreements Program - U.S. Geological Survey	15.809		\$ 40,000	\$	\$ 40,000
Total U.S. Department of the Interior			\$ 40,000	\$ 0	\$ 40,000
<u>U.S. Department of Justice</u>					
Pass-Through Program:					
Department of Corrections					
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	96-CV-VX-0026	\$ 8,785,235	\$	\$ 8,785,235
Total U.S. Department of Justice			\$ 8,785,235	\$ 0	\$ 8,785,235
<u>U.S. Environmental Protection Agency</u>					
Direct Program:					
Surveys, Studies, Investigations and Special Purpose Grants	66.606		\$ 20,000	\$	\$ 20,000
Total U.S. Environmental Protection Agency			\$ 20,000	\$ 0	\$ 20,000
<u>U.S. Department of Education</u>					
Pass-Through Program:					
Department of Education					
Rehabilitation Services: Vocational Rehabilitation Grants to States	84.126	H126A990030	\$ 33,342	\$	\$ 33,342
Total U.S. Department of Education			\$ 33,342	\$ 0	\$ 33,342
<u>National Archives and Records Administration</u>					
Direct Program:					
National Historical Publications and Records Grant	89.003		\$	\$	\$ 0
Total National Archives and Records Administration			\$ 0	\$ 0	\$ 0
Total Financial Assistance			\$ 8,878,577	\$ 0	\$ 8,878,577
<u>Nonfinancial Assistance</u>					
General Services Administration					
Direct Program:					
Donation of Federal Surplus Personal Property (3)	39.003		\$ 5,707,555	\$	\$ 5,707,555
Total General Services Administration			\$ 5,707,555	\$ 0	\$ 5,707,555
Total Nonfinancial Assistance			\$ 5,707,555	\$ 0	\$ 5,707,555
Total Expenditures of Federal Awards			\$ 14,586,132	\$ 0	\$ 14,586,132

(1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Management and Budget (DMB) and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules and financial statements.

(2) CFDA is defined as *Catalog of Federal Domestic Assistance*.

(3) For Donation of Federal Surplus Personal Property, the amount is the acquisition value of the property on hand at the beginning of the fiscal year plus the acquisition value of property received. These values do not include service charges that are the basis for the sale price of inventory items. The amount distributed to subrecipients is the original federal acquisition cost of the property.

For the Fiscal Year Ended September 30, 2000				Total Expended and Distributed for the Two-Year Period
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
	\$	\$	\$ 0	\$ 40,000
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 40,000</u>
	\$ 9,720,480	\$	\$ 9,720,480	\$ 18,505,715
	<u>\$ 9,720,480</u>	<u>\$ 0</u>	<u>\$ 9,720,480</u>	<u>\$ 18,505,715</u>
	\$	\$	\$ 0	\$ 20,000
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 20,000</u>
H126A000031	\$ 255,344	\$	\$ 255,344	\$ 288,686
	<u>\$ 255,344</u>	<u>\$ 0</u>	<u>\$ 255,344</u>	<u>\$ 288,686</u>
	\$ 27,856	\$	\$ 27,856	\$ 27,856
	<u>\$ 27,856</u>	<u>\$ 0</u>	<u>\$ 27,856</u>	<u>\$ 27,856</u>
	<u>\$ 10,003,680</u>	<u>\$ 0</u>	<u>\$ 10,003,680</u>	<u>\$ 18,882,257</u>
	\$ 4,876,217	\$	\$ 4,876,217	\$ 10,583,772
	<u>\$ 4,876,217</u>	<u>\$ 0</u>	<u>\$ 4,876,217</u>	<u>\$ 10,583,772</u>
	<u>\$ 4,876,217</u>	<u>\$ 0</u>	<u>\$ 4,876,217</u>	<u>\$ 10,583,772</u>
	<u>\$ 14,879,897</u>	<u>\$ 0</u>	<u>\$ 14,879,897</u>	<u>\$ 29,466,029</u>

OTHER SCHEDULES

DEPARTMENT OF MANAGEMENT AND BUDGET

Summary Schedule of Prior Audit Findings

As of September 30, 2000

**PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES AND FINANCIAL
STATEMENTS**

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1996 through September 30, 1998

Finding Number: 079901

Finding Title: Accounts Payable

Finding: The Department of Management and Budget's (DMB's) controls did not ensure the proper recording of year-end accounts payable and related expenditures in the General Fund and the State Building Authority Advanced Financing Fund.

Comments: DMB complied with the corresponding recommendation.

DMB is committed to reflecting reliable accounts payable at year-end. Procedures have been rewritten to further emphasize how to arrive at reliable accounts payable in a consistent manner, and a reliable estimating process has been developed for exceptions.

Audit Period: October 1, 1996 through September 30, 1998

Finding Number: 079903

Finding Title: Misclassification of Expenditures

Finding: DMB incorrectly recorded and reported payments made to universities for capital outlay projects as current expenditures, rather than as operating transfers, as required.

Comments: DMB complied with the corresponding recommendation.

DMB has revised the capital outlay closing procedures to ensure that expenditures related to component units are reflected as operating transfers to the component units.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1996 through September 30,1998
Finding Number: 079902
Finding Title: Budgetary and Financial Reporting
Finding: DMB's budgetary process did not ensure that it developed legislative appropriation requests that would not conflict with proper accounting and reporting of activities in accordance with generally accepted accounting principles.
Comments: DMB has not fully complied with the corresponding recommendation.

DMB has considered the Office of the Auditor General's recommendation and disagrees with its interpretation of generally accepted accounting principles.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

The one prior audit finding related to federal awards (Finding 079904) is no longer applicable to DMB because the federal programs identified in the finding were transferred to the Department of Community Health by Executive Order No. 1997-5.

DEPARTMENT OF MANAGEMENT AND BUDGET

Corrective Action Plan

As of March 27, 2001

There were no findings for fiscal years 1998-99 and 1999-2000.

Glossary of Acronyms and Terms

AFF	Advance Financing Funds.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
DMB	Department of Management and Budget.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) reliability of financial reporting, (2) effectiveness and efficiency of operations, and (3) compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material weaknesses	A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions.

OMB

U.S. Office of Management and Budget.

questioned costs

A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

reportable condition

A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) record, process, summarize and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable laws, regulations, contracts, and grants.

SBA

State Building Authority.

SBAFF

State Building Authority Advance Financing Fund.

Single Audit

A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the

standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

SOMCAFR

State of Michigan Comprehensive Annual Financial Report.

SPEDF

Site Preparation Economic Development Fund.

unqualified opinion

An auditor's opinion in which the auditor states, without reservation, that the financial schedules and/or financial statements are fairly presented in conformity with the disclosed basis of accounting or are fairly presented in relation to the primary financial schedules and/or statements, or an auditor's opinion in which the auditor states, without reservation, that the audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.